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Real Estate Today Through a Life Official's Eyes

Some "Musts" for the Future If Real Estate Is to Be as Attractive as in the Past

By E. B. STEVENSON

I DON'T know when in the past there have been so many really vital questions that so importantly interest mortgage bankers and real estate men as there are today.

For instance, used houses. My company has been very successful in selling used houses by reconditioning them, setting a fair price and then financing their sale on the basis of 10 percent cash with the balance like rent. We meet FHA competition this way.

Then there is—"How to get listings and how to get your full commission."

Then there is the effect of the European War on real estate.

Then there is property management and the question of stabilizing occupancy and of controlling maintenance costs.

There is land development. The accomplishments of J. C. Nichols in his Kansas City projects and the creation in Houston of the River Oak addition are lessons of a life-time in land development.

But most important of all, I suppose, for those in the mortgage banking business, are the questions of lending policies, getting new business, and keeping old business. But, in the end, these problems fade into insignificance when compared to the question of interest rates.

We often are too close to the forest to see the trees—the trees being, with us, the basic principle that *real estate is the fundamental upon which all wealth is created;* and that, because this fact was accepted by those dealing in real estate, it became a major business. Some of us specialize in propery management, some in land development, some in selling real estate, others in mortgage banking—but back of all these operations is the *stability of real estate as an investment.*

THE author of this article, who is associated with a life insurance company that has made a conspicuous success in handling real estate, looks at the future in terms of things which he feels must be done to make property again as attractive as in the past. One of them is a solution of the parking problem in large cities. Another is a reduction of property taxes so that corporations will again want to establish plants inside city limits. Mr. Stevenson is Vice President of the National Life & Accident Insurance Company of Nashville, MBA members.

Five thousand years ago, the land along the Nile Valley was producing wealth and was good security for a loan. That land today is still good and still producing. *No other security under the sun can equal that record.*

Real estate, as an asset, cannot be moved from place to place. It is a frozen asset but, at the same time, the basis for all wealth.

Here is a one-word picture of the permanence of real estate. I have a friend who lives near Bordeaux, France, at the Chateau Pontet Canet, famous for its wines for hundreds of years.

For several hundred years these vineyards have been in the hands of his family. During that tenure of ownership, members of the family have seen France ruled by kings and by presidents. They have seen bloody revolutions, great wars, crusades by Napoleon, by Wilhelm, by Hitler. Currencies have come and gone. Yet, despite all this, my friend still lives and carries on in Chateau Pontet Canet.

Today, real estate is probably in stronger hands than for many years in the past and the trend is definitely upward. There are fewer forced sales and foreclosures than there have been at any time in the past ten years. The large trust funds built and conserved by the leading life insurance companies of this country have made abundant capital available at a low rate of interest for well secured loans on real estate.

During 1939 our Company acquired by foreclosure exactly ten parcels of property. Four of these were re-sold

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The Five Year Record of the FHA

Here Is an FHA Official's View of What the Agency Has Accomplished in the Field of Mortgage Lending

By ABNER H. FERGUSON

WHAT part will the FHA have in the growing interest in home buying and mortgage lending? The desire for home ownership is inherent in every adult human being and for the first time in the history of the country has the average home buyer had the benefit of some measure of protection against shoddy construction and inferior materials, together with financing terms favorable to a reasonable certainty of actual ownership.

What does this mean to the mortgage banker and what are your problems with relation to FHA? How can it best serve you and you, in turn, serve prospective home owners and thus contribute to the general economic well being of the country? I say country deliberately and advisedly because your activities are no longer confined to one locality.

When a given area reaches the saturation point on direct loans, there is still open to you an investment in insured mortgage loans made by other institutions in areas where there is a scarcity of mortgage funds. Such investments have substantially the safety of a Government bond and yield a better income than comparable securities.

Furthermore, you have the comfort of knowing that your funds will not be tied up in frozen real estate. Thus is created a standardized mortgage and a free flow of mortgage funds is established from one end of the country to another, bringing with it a more stabilized home mortgage and real estate market than has heretofore ever existed.

Now how has the FHA been able to accomplish as much as it has? The answer lies largely in our careful analysis and check of all the many factors that enter into each mortgage transaction.

First, our architects inspect the physical property itself to determine its structural soundness, functional plan, convenience, livability and architectural merit.

Then our valuators study the individual location in relation to the immediately surrounding neighborhood. They take into consideration the probable future trends of that neighborhood, check the adequacy of transportation, school facilities and utilities. They have the benefit of our economic analyses of the actual need for the housing in question, our market and cost studies and other similar factors.

IN this article Mr. Ferguson, who is General Counsel and Assistant Administrator of FHA, takes stock of the past five years in mortgage lending. He tells you what was wrong with the mortgage banking field before FHA came along and how this agency has made improvements. He talks about a great many other things that have to do with the business, among them more modern foreclosure laws (about which he spoke at the Detroit MBA Convention), mechanics lien laws and that day in July of 1941 after which it will no longer be possible to insure existing construction mortgages. This is part of a speech he made before a meeting of the CMBA recently.

Lastly, we evaluate the borrower himself—his credit record, his attitude toward his obligations, his ability to pay, his employment record, stability of income, and future prospects.

All these factors are then related and coordinated in an effort to reduce the risk to its minimum. Not the least of these efforts is to make the monthly payments on an FHA-insured mortgage bear a proper relationship, both to the income of the borrower and to the rental value of the property.

This all takes time. Some lenders, some builders and some borrowers find our exhaustive examination a cause for complaint. Some of your competitors use it as an argument to take business away from you.

We in the FHA are thoroughly conscious of the criticism and through continuous study of the problem are steadily establishing short-cuts wherever we can safely do so. Just lately we have put into effect a new procedure which should greatly reduce processing time.

But, under no circumstances, will we so alter our procedures as to permit the insurance of doubtful or uneconomic transactions. There is a point below which we never can go—below which a saving of time at the start would undoubtedly mean far greater loss in the long run to the lender, the borrower and the FHA.

I feel that a pretty good job has been done by the FHA in laying a very solid foundation for a sound home mortgage market in the United States. This could not have been done without sound underwriting policies and procedures, or without the employment of men of the highest calibre, integrity, loyalty, honesty and devotion to the job at hand.

But underwriting policies are not the entire story. There is the "follow-through" of foreclosure procedures. This brings up questions in connection with the issuance of debentures for the properties which are turned over to the FHA after foreclosure.

When the mortgage goes into default —which it does if the mortgagor fails to make any payment or fails to perform any other covenant of the mortgage, and such failure continues for a period of 30 days—the mortgagee is required to give written notice of the default to the Administrator within 60 days thereafter, if the default has not been cured in the meantime. Special forms are provided for these notices.

At any time within one year of the date of default, or such further time as the Administrator shall agree to or the laws of the state require, the mortgagee is required to commence foreclosure proceedings, or, with the consent of

the Administrator, obtain title to the property by voluntary conveyance.

The form which the foreclosure proceeding takes is left entirely to the mortgagee, provided, the procedure is such as to enable the mortgagee to convey to the Administrator a good merchantable title.

While regulations require the mortgagee to notify the Administrator of the institution of foreclosure proceedings there is no necessity whatsoever for making the Administrator a party to the action. As a matter of fact, there is no requirement that the mortgagee convey the property to the Administrator at all. It may, if it prefers, elect to to keep the property and waive the insurance. In which event, he should notify the Administrator of his choice.

Now About Foreclosures

The most frequently asked questions in connection with foreclosures are: "What amount should be bid at the foreclosure sale?" and "Should the lending institution obtain a deficiency judgment?"

The Administrator makes no requirements in either case, but we do expect a mortgagee to use the same good business judgment that it uses in the case of foreclosure of uninsured mortgages. If a deficiency would be of any value and could be collected, it is more to the interest of the mortgagee to obtain one than it is to the Administrator, because there are certain items such as court costs, and amounts necessary to remedy waste, if any, which are included in the certificate of claim and not in the debenture.

The certificate of claim is only valuable to the extent of any funds which may be left from the sale of the property after paying the Administrator's expenses in handling and disposing of the property and the principal and interest on debentures issued in connection therewith. It can readily be seen, therefore, that if a collectible judgment is assigned to the Administrator the mortgagee has a better chance to recover the items constituting the certificate of claim. If the mortgagee does not obtain a deficiency judgment he is required under the Act to assign to the Administrator whatever claim he may have against the mortgagor and the Administrator is then entitled to recover a deficiency judgment, or not, as he thinks proper.

Once a foreclosure is started we expect that it be deligently prosecuted, except that we make no objection to bona fide delays pending an effort to help the mortgagor work out his problem. The mortgagee is permitted to dismiss proceedings once instituted and reinstate a mortgage if the mortgagor pays all monthly payments and such costs as the mortgagee may have incurred. In this event the insurance is continued as if no default had occurred. The mortgagee must be careful, however, to see that the foreclosure proceedings have not reached the point where the validity of the mortgage will be affected.

After completion of foreclosure proceedings if the mortgagee desires to convey the property to the Administrator in exchange for debentures and certificate of claim, it should notify the Washington office and instructions and forms will be furnished. Claims should be filed within 30 days after acquiring possession of the property and a deed tendered to the Administrator containing convenants which warrant against the acts of the mortgagee and all claiming by, through or under it.

The property must be undamaged by fire, earthquake, flood or tornado and undamaged by waste except with certain exceptions. Under the regulations the property should be free of occupancy, but in cases where it is occupied be favorable tenants this requirement may be waived by the Administrator after inspection and investigation.

Conveyance of property will not be accepted until the expiration of such redemption period as may be applicable to the property and during this period while the property belongs to the mortgagee, it is its duty to care for it and see that it suffers no waste.

Minimum Effort Required

The mortgagee must pay taxes and FHA insurance premiums during the foreclosure period and the amounts will be added to the debentures. The debentures are dated as of the day foreclosure is commenced or the property is otherwise acquired and bear interest from that date. Thus the mortgagee loses nothing because of these payments and the delay in getting its debentures.

The mechanics of conveying property, filing claims for debentures, and the process thereof, is set out in detail in special instructions which are issued in order to assist lending institutions in making claims. I believe we have worked out a procedure that involves a minimum amount of effort on the part of lending institutions and a minimum amount of time in accepting the property and issuing the debentures.

The Act gives the Administrator broad powers in connection with handling properties which are conveyed to him. Regardless of his rights, however, the Administrator strives at all times to keep the interest of the mortgagee and the interest of the mortgagor ever in mind in adopting management and sales policies in connection with these properties.

Sales Carefully Made

Immediately upon receipt of the claim for debentures the property is examined by our local insuring office to determine its physical condition and also to obtain all facts concerning it so that upon acceptance the regular management procedure can begin to function. Upon conveyance of the property we make estimates of its present value, repairs needed, if any, and the cost thereof, the estimated price at which the property may be readily sold in its present condition, and the estimated price at which it may be sold if repairs are made, and its rental value both with and without repairs. We also study the local real estate market situation for the purpose of determining the policy in connection with the disposal of the property. When we have decided to sell the property it is listed with one or more brokers who are, upon investigation, found to be equipped to handle the property.

The general policy is to dispose of properties as promptly as is consistent with prevailing local conditions. If we do not feel that a property can be sold promptly for a satisfactory price or on satisfactory terms, it may be held and rented temporarily. We may sell properties for cash or credit in full discretion of the Administrator. If there is a sufficient down payment on the sale of the property, its purchase may be financed through an insured mortgage. If the down payment is not sufficient for outside financing on an insured mortgage basis the Administrator will take back a regular amortized mortgage which he may hold until the purchaser has established a sufficient equity in

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FIVE YEARS OF FHA

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which event the mortgage may be sold to an approved mortgagee and insured.

Foreclosure expense is a definite part of lending money on real estate security and often dictates lending policies to such an extent as to seriously impede orderly and adequate home financing in the areas and for the income groups where the need is most urgent.

With a home financing system offering more favorable terms than ever before known in the country, it is impossible to justify exorbitant foreclosure costs.

New Foreclosure Laws Needed

The Central Housing Committee in Washington, through its Sub-committee on Law and Legislation, of which I happen to be chairman, has made a thorough study of this question. It has drafted uniform laws for all states covering a short form of mortgage and a simplified foreclosure procedure. I am hopeful that these proposals will be approved by the Commissioners on Uniform State Laws and the American Bar Association at their annual meeting next July.

I am confident that their adoption by the several states will provide adequate protection to borrowers and at the same time permit lenders to advance funds to prospective home buyers on equally favorable terms in all states.

This situation was brought very forcibly to our attention when the FHA first announced new regulations for building small houses under Title I of of the National Housing Act, in which 95 percent of the total value of the completed property may be represented in the mortgage.

A great deal of study and a careful survey of the field is in the background of this new program. We, ourselves, very probably would have considered it pretty drastic a few years ago.

However, income studies made over the past few years particularly that of the National Resources Committee, showed that 75 percent of wage earning families have incomes of $2,000 or less. That is a large segment of the country's urban population. The FHA has been providing a financial mechanism for the purchase and building of homes largely of a little higher income group.

The United States Housing Authority is set up to provide housing through Government subsidy for the lowest income groups. For the group in between there was no provision and one stumbling block to otherwise acceptable home buyers in this group was the absence of a sufficient sum to cover the then required equity and initial costs. We had visual demonstrations in scattered areas of the country, notably California, Texas and even on Long Island, that the building industry, given the proper encouragement, could produce a substantial, livable and attractive house at a lower price to the buyer than ever before had been thought possible.

So we set about finding the final solution to the problem— a suitable financing plan. Certainly no one plan ever offered by the FHA has received such wide acclaim and interest as this new small home program.

We spent considerable time adjusting and readjusting this program and as you know, have just lately revised it somewhat, adding protective features for the benefit of borrowers, lenders, and the Government. New minimum construction standards should assure structural soundness. Were we to insure any paper that may be offered we might very possibly find ourselves unwittingly encouraging and fostering the worst type of shelter which the high-pressure salesman could pawn off on the unsuspecting home buyer. None of us want that kind of business.

Location standards should assure both lenders and borrowers of marketability should the need arise in the future and the FHA does not intend to destroy this assurance in connection with these low cost houses which enjoy the widest possible market.

Mechanics' Lien Laws

These new safeguards having been adopted, the RFC has now entered the picture and will furnish a secondary market for the paper, and its example is being followed by private investors with large investment funds at their disposal.

Another matter that presents a serious obstacle to a sound mortgage market is the mechanics lien laws. I won't go into that question here. Our studies indicate the need for drastic revisions and a more reasonable approach to the problem in many areas. Suffice it to say that any law which leaves one party to a bargain in complete darkness as to his rights under any given circumstance seems to hark back to the Dark Ages. This is certainly the case under the mechanics lien laws of a number of states, where a lien may attach at any time within 90 days after the completion of a building and have priority over a construction loan on which the money was advanced in good faith during construction.

The National Resources Committee is giving careful study to a uniform mechanics lien law. It is hoped that we may be able to present a final draft of this proposed law to the meeting of the Commissioners of Uniform State Laws.

Tax Delinquencies

We are also making a very exhaustive study of the real estate tax delinquency question. This is, I think, one of the most vitally serious questions facing the country today. When you read the statistics as to the percentage of properties which are delinquent in some of the states, you can readily see why so many of our cities are bankrupt.

In an effort to help relieve this situation we have recently announced a plan to insure loans on groups of rehabilitated properties in neighborhoods that are beginning to deteriorate and many of which are delinquent in tax payments. There are large groups of such properties in the very heart of many of our metropolitan cities. With a judicious expenditure of funds for modernization and rehabilitation, investment capital could profitably reclaim many of them as to produce adequate and desirable housing facilities for great numbers of wage earners who are otherwise faced with a rent outlay entirely disproportionate to their incomes. Such a program has already been successfully demonstrated in one city on the Eastern Seaboard. Just how much of this type of business exists is problematical— probably not a great deal outside of the older, large cities.

The spotlight these days is focussed so brightly on the need for new housing and the desirability from a recovery standpoint of new construction activity that I am fearful we are all somewhat guilty of over-emphasis. After all there is a vast quantity of structurally sound existing houses in every city and town which will still be useful for a long time to come. In fact much of it is preferable for some families than newer and smaller structures of about the same sale or rental price.

Existing property then, in my personal opinion, should be as much a part of present day mortgage thinking as

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Approaching Collapse of the General Property Tax

Announcing the National Real Estate Tax Conference in Washington April 25, 26 and 27 Sponsored by MBA and Related Groups

NEXT to depressed economic conditions generally, no other problem of the past decade has loomed more importantly than the crushing burden of taxation on real estate.

After ten years of agitation and discussion, little seems to have been done to lighten the tax load that property owners carry. Here, in a word, is a large part of the answer why a normal volume of new construction has not returned, why there is still billions that could profitably be invested in real estate—but aren't because the potential owners fear the consequences of even higher taxation.

But something is going to be done, something that holds the possibilities of great promise in accomplishing much needed reform in the field of property taxation.

It is a National Real Estate Tax Conference, to be held in Washington, D. C., at Hotel Mayflower April 25, 26 and 27.

It is being sponsored by the Mortgage Bankers Association of America in joint cooperation with the National Association of Real Estate Boards, the National Apartment Owners Association and the National Association of Building Owners and Managers. Six other great national bodies are participating in the preliminary discussions now going on and are expected to join in the movement.

Myers Y. Cooper of Cincinnati, former governor of Ohio, has been selected as the conference chairman.

Preliminary MBA plans were made in conferences which included Mr. Kanaley, Mr. Patterson and Ferd Kramer, president of the CMBA. Two MBA committees have been appointed in connection with the drive and their members and activities will be announced shortly.

The approaching collapse of the general property tax and what action should be taken to bring about more equitable taxation of real estate ought to be of primary concern for every citizen today, MBA and affiliated groups feel.

What can be done to lighten the tax load on homes, farms and other real estate, and how we can bring property taxes more into alignment with what public policy dictates is equitable are subjects for solution now.

The pyramiding of different types of taxation on real estate is a basic hindrance to recovery. The economic effects are felt by everyone in a community when real estate tax delinquencies mount, as they have done in many states, to a point which discourages building and investment and which endangers municipal, school and state finances, Mr. Cooper points out. In preparation for a national discussion looking to some rationalization of the tax system as a needed recovery measure, a suggestion was made to President Roosevelt that a federal study be made of the total tax burden imposed on various forms of property and income and more especially on real estate. It was referred by the President to heads of the five chief governmental agencies concerned with real estate and taxation.

Their joint reply to the President, signed by Henry Morgenthau, Jr., Secretary of the Treasury; Jesse H. Jones, of the Federal Loan Agency; John H. Fahey, Chairman of the Federal Home Loan Bank Board; the Governor of the Farm Credit Administration, and Stewart McDonald, FHA Administrator, takes the position that the Federal Government imposes no direct taxes on real estate and "taxation as it applies to such property is primarily a State and municipal problem."

The letter adds: "It is generally recognized that real estate taxation in most sections of the country is unduly high. The development of plans which may have a tendency to lighten the burden is certainly to be encouraged, and it is to be hoped that the proposed National Conference may result in constructive suggestions. The Departments of the Federal Government and the independent agencies which are concerned with real estate problems are in a position to cooperate in developing facts which may be of assistance to the proposed conference in reaching conclusions."

A tentative program has been arranged, but is subject to considerable change. At the first session, there will be a discussion of the general property tax as well as another of how this tax affects farm prosperity.

Next day a talk on the approaching collapse of the general property tax and its ultimate effect on education will be made by someone high in educational circles. Next will follow a discussion of homestead exemption and following that an address on pyramiding of taxes.

Other subjects tentatively listed: Alternative Methods of Taxing Property Ownership, including discussions of the Michigan Plan, Over-All Tax Limitation and a Review of the Income Approach in Arriving at Tax Valuations.

It isn't necessary to emphasize to MBA members that property taxes *are* high, but here is an interesting bit of factual data that indicates *how* high. The New York HOLC office recently analyzed 300 sales at random in that state.

The 300 properties brought a total of $1,166,800, on which total annual taxes amounted to $66,553, this being an average effective rate of 5.7 percent, or more than the investment return of many properties. The survey disclosed the following rates:

Ratio of Taxes to Selling Price	*Number of Properties*
Less than 3.0	14
3.0 to 3.9	34
4.0 to 4.9	63
5.0 to 5.9	68
6.0 to 6.9	46
7.0 to 7.9	20
8.0 to 8.9	22
9.0 to 9.9	16
10.0 and over	17
	300

"Undoubtedly the present rate of expansion in home construction could be greatly accelerated if the public could be assured of equitable taxes. More people could be put to work on new construction and a better economic atmosphere would prevail," say the HOLC.

Association ACTIVITIES

★ NEWS OF WHAT'S HAPPENING AMONG MBA MEMBERS AND OUR LOCAL ASSOCIATIONS

LOS ANGELES TO GET NEW CLINIC

Success of the first MBA Mortgage Clinic in Chicago has been responsible for a second which is announced for March 19th in Los Angeles under the joint sponsorship of MBA and the Southern California Mortgage Bankers Association. Members in that city and Berkeley, Beverly Hills and Pasadena are already sending in their questions for clinical discussion.

H. F. Whittle of the H. F. Whittle Investment Co. of Los Angeles is one of a group of MBA in Los Angeles in charge of arranging this second mortgage conference.

President Shutz is hopeful that this meeting will attract a large attendance from members throughout California. The meeting will be conducted exactly as in Chicago. Nothing will be reported, so we advise our Pacific Coast members to make plans now to attend. More details as to the hotel, time of convening, etc., will be announced in another communication shortly.

MBA OFFICERS TO TOUR PACIFIC COAST CITIES

President Byron T. Shutz and Secretary George H. Patterson leave March 3 for a tour of the Pacific Coast in behalf of MBA activities in that section. A feature of the tour will be MBA's second Mortgage Clinic in Los Angeles. This is the first trip to the Coast any MBA officer has taken since early 1936 when Mr. Patterson visited our Western members.

The trip this month calls for meetings in Spokane, Seattle, Portland, San Francisco and Los Angeles. Meetings in all cities but one will be under the sponsorship of the local MBA chapters.

Mr. Shutz and Mr. Patterson speak in Spokane March 6 before the Spokane Mortgage Men's Association. Next day they will speak in Seattle before the Seattle Mortgage Bankers Association, and on March 11 before the Portland Mortgage Bankers Association. On March 13 they will address a group of San Francisco, Oakland and Berkeley mortgage men and on March 19 will appear before the Southern California Mortgage Bankers Association.

1940 CONVENTION OF MBA WILL BE IN CHICAGO

Your 1940 MBA Convention will be in Chicago.

The dates are October 2, 3 and 4 and the place is The Drake Hotel.

So once again Chicago, the scene of more MBA conventions in the past than any other city, the place where the first MBA convention was held, will be the meeting point for the only national gathering of mortgage men in the country.

Many cities were suggested this year and many were considered, but in the end Chicago won, primarily because an overwhelmingly larger number of members wanted Chicago. The questionnaire that went to all members last Fall showed that Chicago is preferred because it's easier to reach for most of our members. Attendance in Chicago is always several hundred above that in any other city.

The Chicago Mortgage Bankers Association, largest MBA local group and headed this year by Ferd Kramer, Vice President of Draper & Kramer, Inc., will stage our 27th annual meeting. Although MBA last met in Chicago only two years ago, CMBA has graciously shouldered the great amount of work that goes into holding an annual meeting. The first convention conference was held last week with Secretary George H. Patterson and the wheels have already started to roll.

This year, for the first time, it is possible to plan a program which accurately reflects members' wishes. For months the program committee has been studying and analyzing the replies received from members as to what sort of convention they want. It is headed by Aubrey M. Costa, Vice President, Southern Trust & Mortgage Company of Dallas, and includes William B. F. Hall of Ft. Wayne, Ind., Howell N. Tyson of Chicago, Donald T. Pomeroy of Syracuse, W. W. Beal of Waterloo, Iowa, R. B. Hassett of Detroit, Frederick S. Duhring of Berkeley, Calif., and H. Martin Tenney of Hartford.

Each member took a group of replies, made a compilation reflecting a representative opinion, and from these a final master opinion is being prepared as a guide in planning this 1940 MBA Convention—a Convention which will undoubtedly surpass in attendance and interest any of the past.

But even all this factual background isn't enough for Mr. Costa. He wants more. He wants every idea and every suggestion he can get in making the 1940 program one that will satisfy everybody.

Have you any other thoughts on—

1. How many nationally known speakers do you want to hear?
2. Did the success of the Mortgage Clinic on February 10 suggest anything to you that might be included in the Convention Program?
3. Should we have more small group meetings and give less time to general convention sessions?
4. Should we plan to take definite action in Chicago in October on Fair Practices Codes—that is adopt some general policy?

These are a few suggestions. What else? Let Mr. Costa know what they are.

NEW MBA LOCAL FORMING

Another new MBA local association is organizing, this time a state group, the Illinois Mortgage Bankers Association. Secretary George H. Patterson, with Maurice A. Pollak, Vice President-Secretary, Draper & Kramer, Inc. of Chicago, met with Illinois mortgage men in Springfield February 28th for a preliminary meeting. Nearly 20 firms were represented.

A primary reason for the move is to create a mortgage group to represent the entire state. CMBA's activities are confined only to Metropolitan Chicago. Legislation introduced last year affecting foreclosures focussed attention on the necessity for such an organization.

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LABOR PROBLEM

When a normal volume of new building develops in this country there may not be sufficient skilled labor to handle it, according to latest MBA study. The views of Association members in 64 cities in 31 states are reflected in the survey.

Replies show that 70.5 percent of the members replying say that because so few apprentices have been trained in recent years there is not a sufficient supply of skilled labor available to handle what would be considered a normal volume of new construction in their communities. The opposite view was taken by 25.5 percent of the members who declared that sufficient skilled labor is available. Four percent ventured no opinion.

Shortage would apparently be felt most in Eastern states although the opinions expressed were fairly uniform over the entire country. By sections, these opinions were:

MBA Members in:	*Foresee no Shortage Skilled Labor*	*Expect Shortage*	*Had No Opinion*
33 Mid Western cities....	25.1	69.7	5.2
13 Eastern cities..............	25.	75.	
10 Southern cities............	25.	70.	5.
8 Far West-Mt. cities....	30.8	69.2	

"For well over a decade relatively few young men have entered the building industry and its many branches because of depressed conditions," said President Byron T. Shutz. "It is only natural that should a normal volume of new construction return, there might be a shortage of skilled craftsmen. It seems clear then that when building recovery really sets in, this industry will play a large part in solving our unemployment problem."

E. B. STEVENSON'S REAL ESTATE OBSERVATIONS

(*Continued from page 1*)

before the year ended. Last year we sold approximately 200 pieces of property and on the last day of December the amount of real estate which we owned was only about five percent of the total gross real estate loans which we have made over the period of the past fifteen years. Furthermore, on December 31, the amount of interest on real estate loans due over 90 days was only about $3,000. Naturally we *believe* in the stability of real estate.

Because of the trends which have been developed in the field, it is now possible for many people to acquire real estate and own an equity with reasonable time allowed in which to complete the payments. I say that when you sell a home to a man, and it is one he can pay for, you have contributed to the well-being of your State and Nation. A home-owner becomes a stockholder in his community. His interest is more genuine.

Property located in London, Paris and Berlin, as well as many other European cities, has maintained its values for hundreds of years. In this country, values in real estate are created today only to be destroyed and replaced by other properties or other localities in too short a time.

The Car Influence

The automobile has been popularized in the United States in the past twenty years to the point where we now have more automobiles per capita than in any other country. I think this fact gives us very quickly an accounting for the difference in the trends in this country as compared with those observable in Europe.

People in London, Paris and Berlin must live as they have always lived, in concentrated areas, because the average man cannot own an automobile. If he did own one, he couldn't afford to buy the petrol necessary to operate it. In this country where the average man has come to regard the automobile as a necessity it has become unnecessary that he live in the concentrated districts near his work. Therefore, the scattering of population that we see all over the country, is characteristic.

Hence, the question: *What are you going to do to stabilize real estate values?* This is the problem of everyone interested in real estate. I am afraid it will continue to develop until it may be too late. Then all we can do is to look back and say, "I wish we had taken action then."

As a means for increasing property values, I suggest the following:

1. Property taxes should be reduced to a point where it will again become attractive for manufacturers and merchants to establish a business inside the city.

Make Buying Easy

2. It is necessary to make businesses within the city conveniently accessible to purchasers. This means that adequate transportation facilities should be provided through common carriers that will be speedy and comfortable, and through highways that will be convenient and will permit traffic to move with speed and safety for the use of private automobiles.

3. It is necessary that adequate parking facilities be supplied so that upon arrival in the shopping area, an individual can promptly and economically park his car. I think that if this problem can be worked out on a practical basis, the large, concentrated shopping areas throughout the United States can be preserved and real estate values in such centers would rise. Certainly people would rather buy at the larger stores in the concentrated areas if it were only made possible for them to do so. Isn't it ridiculous for someone with money in his pocket not to be able to park a car near enough to a store to spend it?

These are basic problems that challenge the future of real estate. But, more, they challenge the ingenuity of those engaged in real estate and real estate financing.

"There are 25 billion dollars of capital in the hands of institutional ownership such as insurance companies, banks, trust companies and others eagerly waiting employment in sound undertakings.

"Of the 8,000,000 dilapidated or obsolete buildings in American cities today half are structurally sound and can easily be converted through rehabilitation into modernized structures to meet the requirements for residential units for the low income brackets."—A speaker before the Illinois Builders League.

ABNER FERGUSON'S SUMMARY OF 5 YEARS OF FHA

(Continued from page 4)

new construction. Under an amendment to the National Housing Act enacted last year, our authority to insure existing construction is limited to 25 percent of our total volume and our authority to insure mortgages on existing construction expires entirely on July 1, 1941. Whether or not Congress by then will feel that our activities should be confined solely to new construction I do not know. Already in some quarters, the question is being raised that this is discriminatory and disrupting to the mortgage market as a whole. I do not see how the mortgage market can be stabilized by dealing with only a comparatively small part of it and neglecting to provide favorable market facilities for the rest. However, our problem is to administer the law as it stands, and, largely because of this limitation, we have been obliged to examine existing properties with very strict attention to the risk factor in each one.

The mortgage structure which was completely frozen in 1934 is now completely thawed out.

Today and 1934

There was no mortgage money available in 1934, whereas today there is more money than mortgages; there were practically no houses built 1934, whereas 1939 was the best construction year since 1928; in 1934 a mortgage was an extremely unliquid investment, whereas today insured mortgages are almost as liquid as listed securities; in 1934 mortgage interest rates ran from 6 to 10 percent, while today the maximum insured mortgage rate is 4½ and 5 percent plus the insurance premium, less many substantial charges for bonuses, commissions, and renewal fees.

In 1934 the accepted style in mortgages was the short-term, low percentage, amortized mortgage with its unsound and expensive companion, the second and third mortgage, whereas today the high-percentage, long-term, amortized, single mortgage has become the vogue; in 1934 appraisals were haphazard and unreliable and were largely limited to the physical value of the property, whereas the system now used by the FHA takes into consideration all the factors that have bearing on the soundness of the mortgage transaction and is the only really scientific method yet devised.

In 1934 and prior thereto subdivisions were started all over the country with no rhyme nor reason and little or no thought to the soundness of their location or planning, whereas today subdivision locations are submitted to the FHA by the hundreds, for approval as to their soundness both in location and planning, and courageous is the man who today will try to develop a subdivision without such approval.

In 1934 and prior thereto houses were often poorly constructed and badly planned and located in neighborhoods which deteriorated quickly because there were no generally established property and construction standards, whereas the FHA has set up minimum standards as a condition for mortgage insurance and inspects these houses during their construction; and last, but in no wise least, this rebuilding of the mortgage structure has begun to have its affect in reducing the cost of home ownership and bringing about the realization that sound and attractive homes can be owned by the large percentage of our people.

Still a lot remains to be done and the problem will not be completely solved until all the elements concerned put their shoulders to the wheel—the building industry, labor, real estate men, large financial institutions, and great industrial corporations, in a word, most of the elements, upon the coordination of which our national economy depends. With the intelligent interest and active participation on the part of all these elements the problem of the construction and financing of adequate shelter in this country can be solved.

HEADS MILWAUKEE MBA

HUGO PORTH

Hugo Porth, partner of Ed. Porth & Sons and member of the MBA Board of Governors, has been elected first President of the newly-organized Milwaukee Mortgage Bankers Association. Frank Ferguson was elected Vice President and Earl K. Loverud was named first Secretary and Treasurer. Walter John and E. H. Grootemaat were named directors of the new group. This new local chapter is the fastest-growing MBA local organized in some years.

WILL THE HOLC BE NEXT?

The interesting developments taking place in FCA seem to foreshadow a similar trend in the HOLC, the American Banker believes, and says that:

"It hasn't broken out in headlines yet, but the pressure to ease up on HOLC loans and interest is going to. Even as the farmers who borrowed from the FCA, the city folks now want the Government to ease up. The argument is simple: Why should big Uncle Sam make me pay when jobs are scarce and money hard to get? Why should a mighty Government shove me off my farm when it hasn't brought about prosperity? These are the arguments that come back when Washington has shouted so hard about saving the home owner and the farm owner. Why not continue to save us? they ask. Sure, why not? To stop now is either going to break the Treasury or ruin an election all set to return the Administration to power for another four years. The FCA has already decided to soften up. Will the HOLC follow?"

A CAUSE FOR ARGUMENT

USHA declares it is building at around 10 percent less cost than private operators can do it. According to a current statement the average overall cost of a complete family dwelling unit in the first 166 low-rent public housing projects financed by the agency is $4,491, said to be about 10 percent less than the $5,024 average cost of similar units in the first 165 large-scale rental developments which had been erected by private industry.